

Financial Forecast

This section includes:

- ▶ *Financial Forecast for FY 2006 and
FY 2007 (Page 154)*
- ▶ *Revenue Assumptions
(Page 156)*
- ▶ *Disbursement Assumptions
(Page 159)*

Financial Forecast

Financial Forecast

The Financial Forecast for FY 2006 and FY 2007 has been developed in accordance with Budget Guidelines adopted by the Board of Supervisors on April 21, 2003. These guidelines serve as an important tool in the process of budget development. As resolved by the Board, the guidelines:

1. Limit the increases in County expenditures and the County's Transfer to the Fairfax County Public Schools to the projected rate of increase in revenues.
2. Require that available County balances, not necessary to support expenditures of a critical nature or to address the Board's policy on the Revenue Stabilization fund be held in reserve to offset future requirements.
3. Direct that non-recurring funds be allocated for non-recurring uses only.

The current forecast projects County revenue growth of 5.82 percent in FY 2006 and 5.94 percent in FY 2007. These rates of growth are due to moderating increases in residential property values, steady Revenue from the Commonwealth and Federal Government and moderate growth in other revenue categories.

The County will continue to be challenged to provide increasing service requirements and basic infrastructure needs and to accommodate the greater demand for County services related to human services, education, public safety and homeland security within the constraints of projected revenue growth. The forecast for FY 2006 and FY 2007 maintains the current Real Estate Tax rate of \$1.16 and limits increases in County expenditures and the transfer to the Schools to the revenue growth rate anticipated in each year in accordance with the Board's guidelines. This forecast shows deficits of \$6.5 million in FY 2006 and \$5.7 million in FY 2007, which will be addressed during budget development. During 2004, staff will be working to revise the forecast and forecast presentation to incorporate more detailed information on projected revenue growth and anticipated cost requirements of both the County and Schools for the forecast period.

Financial Forecast

FY 2006 and FY 2007 FINANCIAL FORECAST (millions)

	FY 2003 ACTUAL	FY 2004 ADOPTED	FY 2004 REVISED	FY 2005 ADVERTISED	FY 2006 FORECAST	FY 2007 FORECAST
Available Beginning Balance	\$0.00	\$0.86	\$69.08	\$0.00	\$0.00	\$0.00
Reserves Balance	94.57	49.81	49.81	52.35	54.69	58.10
REVENUE:						
Real Estate Taxes	\$1,396.53	\$1,494.19	\$1,494.51	\$1,664.33	\$1,801.89	\$1,945.50
Personal Property Taxes ¹	466.50	477.17	469.53	469.51	478.74	492.85
Other Local Taxes	373.59	372.94	384.21	382.95	390.47	398.20
Permits, Fees, and Licenses	27.74	26.85	26.90	26.94	26.94	26.94
Fines and Forfeitures	11.05	12.04	12.78	12.38	12.50	12.63
Revenue from Use of Money/Property	20.74	16.37	18.23	21.11	25.25	31.11
Charges for Services	40.55	38.15	41.94	40.52	41.33	42.16
Revenue from the Commonwealth ¹	79.68	75.91	76.59	77.19	77.19	77.19
Revenue from the Federal Govt.	47.00	39.91	41.13	39.76	39.76	39.76
Recovered Costs/Other Revenue	5.42	5.40	5.93	5.97	5.97	5.97
TOTAL REVENUE	\$2,468.80	\$2,558.93	\$2,571.77	\$2,740.65	\$2,900.04	\$3,072.30
TRANSFERS IN	3.93	1.40	1.40	1.67	1.71	1.75
TOTAL RECEIPTS	\$2,472.73	\$2,560.33	\$2,573.16	\$2,742.32	\$2,901.75	\$3,074.05
TOTAL AVAILABLE	\$2,567.30	\$2,611.00	\$2,692.06	\$2,794.66	\$2,956.44	\$3,132.14
EXPENDITURES:						
Personnel Services	\$505.75	\$539.47	\$541.03	\$568.77	\$601.85	\$637.60
Operating Expenses	307.64	305.71	334.83	312.21	330.37	349.99
Worked Performed for Others	(32.30)	(38.11)	(38.85)	(39.19)	(41.47)	(43.93)
Capital Equipment	3.53	3.88	5.14	2.04	2.16	2.28
Fringe Benefits	127.97	134.62	137.52	160.38	169.71	179.79
TOTAL EXPENDITURES	\$912.59	\$945.56	\$979.67	\$1,004.21	\$1,062.61	\$1,125.73
TRANSFERS OUT:						
Schools	\$1,168.88	\$1,238.48	\$1,240.85	\$1,322.37	\$1,399.28	\$1,482.39
G O Debt (County)	100.09	98.45	98.45	100.02	108.30	114.21
G O Debt (Schools)	113.60	120.90	120.90	126.53	134.53	141.87
CSB	78.40	80.63	80.60	82.89	87.71	92.92
Metro	12.27	12.27	12.27	18.14	20.87	24.00
Paydown Construction	7.01	4.03	18.86	10.49	15.00	15.00
County Transit	17.94	20.28	19.65	21.21	22.44	23.78
Other Transfers	30.31	29.77	35.03	36.95	39.10	41.42
Information Technology	5.92	9.45	9.45	11.63	15.00	15.00
Revenue Stabilization	1.39	0.00	1.62	0.00	0.00	0.00
TOTAL TRANSFERS OUT	\$1,535.81	\$1,614.24	\$1,637.67	\$1,730.24	\$1,842.24	\$1,950.60
TOTAL DISBURSEMENTS	\$2,448.40	\$2,559.80	\$2,617.34	\$2,734.45	\$2,904.85	\$3,076.32
ENDING BALANCE	\$118.89	\$51.20	\$74.72	\$60.22	\$51.59	\$55.82
Managed Reserve	49.81	51.20	52.35	54.69	58.10	61.53
Other Reserves ²	0.00	0.00	22.37	5.53	0.00	0.00
TOTAL AVAILABLE	\$69.08	\$0.00	\$0.00	\$0.00	(\$6.51)	(\$5.71)

¹The portion of the Personal Property Tax reimbursed by the Commonwealth as a result of the Personal Property Tax Relief Act of 1998 is included in the Personal Property Tax category for the purpose of discussion in this section.

²The FY 2004 Revised Budget Plan ending balance reflects reserve funding of \$22.37 million which includes \$18.65 million held in reserve for anticipated FY 2004 Third Quarter Review disbursement requirements related to the construction of the Public Safety Operations/Emergency Operations Center and \$3.72 million held for FY 2004 disbursement requirements associated with Hurricane Isabel and anticipated premium stabilization requirements. Further details will be included as part of the FY 2004 Third Quarter Review package. The FY 2005 Advertised Budget Plan ending balance reflects available funding of \$5.53 million held in reserve to offset economic fluctuations and revenue adjustments.

Financial Forecast

Revenue Assumptions

FY 2006 and FY 2007 revenue estimates are based on a review of current and projections of future economic conditions. The U.S. economy expanded in 2003. Economic growth, as measured by the Gross Domestic Product (GDP) experienced a strong 3.1 percent increase during 2003. Recent indicators point to continued improvement in the national and local economies. The U.S. Consumer Confidence Index has been up in three of the last four months and is at its highest level since July 2002. In addition, the Fairfax County Leading Index, designed to forecast the performance of the County's economy nine to twelve months in advance, has exceeded same-month levels in 2002 in each month since May 2003. Based on the recent trend in the Leading Index, the local economic expansion is anticipated to accelerate by mid-2004.

Total General Fund revenues are projected to increase 5.82 in FY 2006 and 5.94 percent in FY 2007. These rates of growth are the result of an anticipated moderation in Real Estate assessment increases, stabilization of Revenue from the Commonwealth and moderate rates of growth in other revenue categories.

The Financial Forecast assumes an overall increase in Real Estate values of 8.30 percent in FY 2006 and 8.00 percent in FY 2007 compared to the 12.04 percent increase experienced in FY 2005. Total equalization, or the reassessment of existing property, is anticipated to increase 6.90 percent in FY 2006 and 6.60 percent in FY 2007. Housing in Fairfax County has experienced substantial price appreciation during the past three years driven by high demand, coupled with a tight supply, and low mortgage rates. The growth in residential equalization; however, has slowed from the 16.27 percent experienced in FY 2003 to 14.55 percent in FY 2004 and 11.29 percent in FY 2005. This trend is expected to continue with residential equalization projected to increase at moderate rates of 8.00 percent in FY 2006 and 7.60 percent in FY 2007.

In FY 2005, existing nonresidential property values increased at a rate of 3.74 percent after experiencing an overall decline of 2.94 percent in FY 2004. Because of improved office vacancy rates and recent office building sales activity, the value of mid- and high-rise office buildings, which comprise nearly 40 percent of the nonresidential tax base, rose 3.27 percent in FY 2005. The office vacancy rate is expected to continue to fall over the next two years as job growth rises and businesses expand. As a result, office property is expected to experience moderate increases in value in FY 2006 and FY 2007. After falling in FY 2003 and FY 2004, Hotel property experienced a 4.48 percent increase in value in FY 2005. Somewhat lower rates of growth are projected in Hotel property over the next two years as occupancy rates drop slightly in response to the additional availability of rooms as several new hotels are expected to be completed over the next two years. The Retail and Regional Malls categories rose moderately in FY 2005, increasing 7.91 and 3.00 percent, respectively. These categories are expected to remain relatively stable during FY 2006 and FY 2007. Overall, the value of existing nonresidential properties is anticipated to experience further increases of 3.00 percent in both FY 2006 and FY 2007 primarily due to the projected expansion in the economy.

In addition to equalization, the remaining increase in Real Estate value is due to new construction or normal growth. New construction is expected to increase at a lower rate during FY 2006 and FY 2007 a result of a lack of buildable land in the County. Office construction will primarily be build-to-suit and no new hotel projects are anticipated. Residential construction is anticipated to be moderate. Overall, increases of 1.40 percent due to new construction are projected for FY 2006 and FY 2007 compared to an increase of 2.50 percent in FY 2005.

Financial Forecast

In FY 2005, Current Personal Property Tax revenue is anticipated to drop a slight 0.01 percent due to a decline in vehicle levy due primarily to declining values of used vehicles, partially offset with an increase in business levy resulting from the expanding economy. Personal Property Tax revenues, which represent 17.1 percent of total FY 2005 General Fund revenue, are expected to increase 2.0 percent in FY 2006 and 3.0 percent in FY 2007. Both the vehicle and business components are anticipated to experience moderate growth as businesses expand and the vehicle market stabilizes.

Based on the Personal Property Tax Relief Act (PPTRA) of 1998, the Virginia General Assembly approved a plan to eliminate the Personal Property Tax on vehicles owned by individuals over a five-year period. In FY 1999, the first year of implementation, taxpayers were billed for the entire amount of tax levy and received a refund of 12.5 percent of the tax on the first \$20,000 of the value of their personal vehicle from the Commonwealth of Virginia. Vehicles valued less than \$1,000 were refunded 100 percent. From FY 2000 to FY 2002, the PPTRA reduced the Personal Property Taxes paid by citizens by 27.5 percent, 47.5 percent, and 70 percent, respectively with an offsetting reimbursement paid to the County by the Commonwealth. Under the original approved plan, taxes paid by individuals were to be reduced by 100 percent in FY 2003. However, due to the State's lower than anticipated General Fund revenue growth, the reimbursement rate remained at 70 percent in FY 2003 and FY 2004. There are several proposals to increase the reimbursement rate in FY 2005; however, until the General Assembly adjourns, it is uncertain if these proposals will be approved. The reimbursement rate of 70 percent has been included in the FY 2005 Advertised Budget Plan. It should be noted that the PPTRA has no impact on the assessment or projection of total Personal Property Tax revenues; therefore, no assumption as to the rate of tax relief has been made for the forecast period.

Business activity and consumer spending are expected to be moderate during the forecast period. Business, Professional and Occupational Licenses (BPOL) revenue is projected to rise 2.5 percent in each fiscal year while Sales Tax receipts are expected to rise 3.0 percent in FY 2006 and FY 2007.

Interest earned on investments is expected to rise in FY 2006 and FY 2007 based on a forecast of modest increases in interest rates and growth in the investment portfolio. During the past two years, the Federal Reserve lowered interest rates 13 times, leading to a significant reduction in the yield earned on the County's investment portfolio. The average annual yield on investments fell from 6.24 percent in FY 2001 to 2.58 percent in FY 2002 and to 1.49 percent in FY 2003. Based on current interest rates, the yield on County investments is expected to be 1.18 percent in FY 2004 and to rise to 1.40 in FY 2005. During the forecast period, the yield on investment is expected to continue to increase with projections of 1.65 percent in FY 2006 and 2.00 percent in FY 2007.

Excluding revenues from the Commonwealth of Virginia associated with the reimbursement of Personal Property Taxes, Revenue from the Commonwealth and Federal Government is expected to decline 0.66 percent in FY 2005, due primarily due to a reduction in Revenue from the Federal Government, as funding for localities holding illegal aliens is anticipated to be eliminated. Revenue from the Commonwealth and Federal Governments is expected to remain at the FY 2005 level in FY 2006 and FY 2007.

Building and Permit fee revenue is anticipated to decline 5.8 percent in FY 2004. This revenue is a reflection of the construction industry, as well as the size and complexity of projects submitted for review. The slowdown in FY 2004 is indicated by current year-to-date revenues, a decline in major site and subdivision plans submitted, and a reduction in the number of building permits issued. During FY 2005 and the forecast years, Building and Permit fee revenue is projected to stabilize and remain at the FY 2004 level. It should be noted that the expectation that Building and Permit fee revenue will not increase assumes a continuation of the same level of building activity projected to be achieved in FY 2004 and should not be viewed as a further reduction.

Revenue growth rates in these and other categories such as Vehicle Decals, Recordation and Deed of Conveyance taxes and Charges for Services are shown in the following table:

Financial Forecast

REVENUE GROWTH RATES

Category	FY 2004	FY 2005	FY 2006	FY 2007
Real Estate Tax - Assessment Base	12.48%	12.04%	8.30%	8.00%
Equalization	9.94%	9.54%	6.90%	6.60%
Residential	14.55%	11.29%	8.00%	7.60%
Nonresidential	-2.94%	3.74%	3.00%	3.00%
Normal Growth	2.54%	2.50%	1.40%	1.40%
Personal Property Tax - Current ¹	0.90%	-0.01%	3.00%	3.00%
Local Sales Tax	3.00%	3.00%	3.00%	3.00%
Business, Professional and Occupational, License (BPOL) Taxes	2.50%	2.50%	2.50%	2.50%
Recordation/Deed of Conveyance	0.00%	-37.23%	0.00%	0.00%
Vehicle Decals	2.20%	2.00%	2.00%	2.00%
Building Plan and Permit Fees	-5.80%	0.00%	0.00%	0.00%
Charges for Services	3.40%	-3.38%	2.00%	2.00%
State/Federal Revenue ¹	-7.07%	-0.66%	0.00%	0.00%
TOTAL REVENUE	4.17%	6.57%	5.82%	5.94%

¹ The portion of the Personal Property Tax reimbursed by the Commonwealth as a result of the Personal Property Tax Relief Act of 1998 is included in the Personal Property Tax category for the purpose of discussion in this section.

Financial Forecast

Disbursement Assumptions

Direct Expenditures

As previously mentioned, increases in County expenditures are not to exceed the projected growth in County revenues. As such, direct expenditures increase 5.82 percent in FY 2006 and 5.94 percent in FY 2007. Escalating health care costs and poor market performance have necessitated significant double digit increases in funding for health insurance and retirement in FY 2005. Accommodating these increases in FY 2006 and FY 2007, along with our basic costs of operating County government such as pay for performance for employees, market rate adjustments for contractors and inflationary growth, means there is little flexibility for expansion of services or new facilities. In order to provide for compensatory and inflationary increases, as well as cost requirements associated with future new facilities, reductions may be required in other parts of the County's budget in order to stay within the Budget Guidelines.

Transfers Out

School Transfer

The Financial Forecast includes an increase in the School transfer consistent with the rate of revenue growth, 5.82 percent in FY 2006 and 5.94 percent in FY 2007, as directed by the Budget Guidelines.

Transportation

The transfer requirements of \$20.9 million and \$24.0 million in FY 2006 and FY 2007, respectively, for Metro Operations and Construction reflect annual increases of 15.0 percent based on projected inflationary increases and regional infrastructure requirements for Metrorail and Metrobus service. More moderate increases based on revenue growth are included for County Transit based on projected cost increases in the CONNECTOR bus system and Commuter Rail contributions and the purchase of 15 replacement buses each year.

Debt Service

The Debt Service requirements reflect increases required to support the level of bond sales proposed in the FY 2005 - 2009 Capital Improvement Program (With Future Fiscal Years to 2014).

Paydown

Paydown capital construction includes transfers from the General Fund to support construction and renovation of capital facilities. The projected annual transfer for paydown construction is \$15.0 million. It should be noted that the County's paydown construction program was constrained in the early and mid-1990's by budget limitations, deferred maintenance and repair costs and construction of new necessary public improvements. The projected level of paydown funding through FY 2007 will provide for essential maintenance and repair in order to protect and extend the operation of County facilities.

Transfer to Fairfax-Falls Church Community Services Board

The General Fund transfer supporting the Fairfax-Falls Church Community Services Board is consistent with the rate of revenue growth as directed by the Budget Guidelines.

Information Technology

Based on a recommendation from the County's Information Technology Advisory Group (ITAG), a \$15.0 million information technology (IT) transfer has been included in FY 2006 and FY 2007. ITAG, a private sector advisory group established by the County Executive to investigate the condition of the County's IT resources, has identified a total IT requirement of \$95 million and annual spending of \$15 million to \$20 million.

Other Transfers

Other Transfers have been increased by the rate of revenue growth in FY 2006 and FY 2007, or 5.82 percent and 5.94 percent, respectively.